

## Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04

SIL-01 L-03 H-02 INT-05 /088 W  
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R 091440Z JUL 76

FM AMEMBASSY LIMA

TO SECSTATE WASHDC 887

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EO 11652: NA

TAGS: EINV, EMIN, EFIN, PE

SUBJ: SPCC - TAX DEPLETION CASE AND RELATED TOPICS

REF: LIMA 6193, LIMA 6216

1. SPCC REPS WHITE AND RUBY, FOLLOWING UP ON MEETING WITH EMBOFFS (LIMA 6193), REPORTED JULY 8 TO AMBASSADOR, ECON COUNSELOR AND ECON OFF ON THEIR JULY 7 MEETING WITH PERU CENTRAL BANK PRESIDENT SANTISTEVAN. SPCC PARTICIPANTS HAD BEEN WHITE, RUBY, AND FRANK WISE; PERUVIAN SIDE INCLUDED SANTISTEVAN, ECONOMY AND FINANCE MINISTER BARUA, VICE MINISTER KEIL, BANCO DE LA NACION PRESIDENT LOAYZA, AND CENTRAL BANK GENERAL MANAGER POLAR. WHITE HAD PRESENTED PERUVIANS WITH CONCEPTS HE AND RUBY AND WORKED UP AS A RESULT OF MEETING THAT HAD TAKEN PLACE JULY 5 BETWEEN BARUA AND SPCC REPS WISE AND DANNY RODRIGUEZ. BASIC PROPOSAL IS FOR SPCC TO AMORTIZE ITS TAX DEBT OVER A 6-YEAR PERIOD, WITH PROVISION FOR FULL PAYMENT WITHIN 2-1/2 TO 3 YEARS SHOULD COPPER PRICE REACH AND REMAIN AT 80 CENTS PER LB. IN ADDITION, TAX ASSESSMENT WOULD BE AS ORIGINALLY CALCULATED ("HISTORIC" PRICE), BUT SPCC WOULD BE ABLE TO BENEFIT FROM SOL'S DEVALUATION BY PAYING AT CURRENT

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EXCHANGE RATE (LIMA 6193).

2. WHITE DESCRIBED PERUVIANS AS BEING ENTHUSIASTIC TOWARDS PROPOSAL AND FELT THAT IF THE PERUVIAN PARTICIPANTS CAN OBTAIN FULL GOP APPROVAL, THERE WOULD BE A WORKABLE SOLUTION TO TAX DEPLETION CASE. WHILE HE WAS OPTIMISTIC THAT THIS COULD BE DONE, WHITE RAISED TWO CAVEATS: A) THAT VALUATION AT "HISTORIC" PRICE BUT PAYMENT AT CURRENT (POST-DEVALUATION) EXCHANGE RATE WAS CONTRARY TO PERUVIAN TAX REGULATIONS, AND HENCE WOULD REQUIRE FULL CABINET APPROVAL IN FORM OF A DECREE LAW, AND B) APPARENT LACK OF COORDINATION WITHIN GOP COULD SCUTTLE SINCERE EFFORTS OF BARUA, SANTISTEVAN ET AL, TO REACH MUTUALLY SATISFACTORY ARRANGEMENT. WHITE ALSO NOTED THAT HE HAD COME AWAY FROM MEETING WITH IMPRESSION GOP PARTICIPANTS WERE UNDER PRESSURE TO RESOLVE TAX DEPLETION CASE THIS WEEK IN ORDER TO HAVE SELLING POINTS FOR FINANCIAL MISSION DUE IN NEW YORK WEEK OF JULY 12 (LIMA 6216).

3. ON QUESTION OF MINPECO TURNING OVER COLLECTIONS FROM TOQUEPALA SALES TO SPCC (PARA 3, LIMA 6193), WHITE SAID THAT WISE HAD BEEN GIVEN PARTIAL PAYMENT DURING COURSE OF DAY JULY 7. WHITE APPEARED LESS CONCERNED ABOUT THIS PROBLEM THAN IN MEETING REPORTED EARLIER, BUT VOICED WORRY THAT LACK OF COORDINATION WITHIN GOP COULD MAKE THIS CHRONIC PROBLEM.

4. WHITE THEN REPORTED TO AMBASSADOR CONTENTS OF JULY 2 TELEPHONE CONVERSATION BETWEEN JIM GREENE OF MANUFACTURES HANOVER AND SANTISTEVAN AS RELATED BY GREENE TO WHITE. GREENE HAD TOLD SANTISTEVAN THAT MAJOR BANKS FELT THAT GOP HAD UNDERCUT BENEFITS OF DEVALUATION BY IMPOSING 15 PERCENT EXPORT TAX WHICH PENALIZED EXPORTERS THUS, GOP WAS IN A WEAKER POSITION THAN AT TIME OF SANTISTEVAN'S EARLIER VISIT TO NEW YORK. GREENE HAD ADVISED SANTISTEVAN TO FOREGO TRIP AT THIS TIME AND SEND SUBORDINATES INSTEAD, SINCE WHOEVER CAME NOW MIGHT HAVE TO RETURN HOME EMPTYHANDED.

5. IN RESPONSE TO ECON COUNSELOR'S QUESTION REGARDING PERMANENCY OF 15 PERCENT EXPORT TAX, WHITE EXPRESSED LIMITED OFFICIAL USE

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HIS FEELING THAT GOP CURRENTLY VIEWS IT AS PERMANENT MEASURE. RUBY SAID THAT APPARENTLY GOP HAD GIVEN TAX MEASURE THOROUGH CONSIDERATION PRIOR TO ADOPTING IT. WHITE AGREED AND SAID THE THOUGHT THAT IN WORKING UP MEASURE GOP HAD OBJECTIVE OF CAPTURING INCOME FROM CUAJONE PRODUCTION AS WELL AS THAT OF TOQUEPALA. HE NOTED, HOWEVER, THAT SUCH TAXATION ON CUAJONE PRODUCTION WOULD BE COUNTER TO SPCC-GOP CONTRACT FOR CUAJONE.

SPCC REPS DURING JULY 7 MEETING HAD DESCRIBED  
ADVERSE EFFECTS OF THIS TAX UPON TOQUEPALA INCOME IN  
AN EFFORT TO HAVE GOP RECONSIDER MEASURE'S PERMANENCY.  
(WHITE CLAIMED THAT AT 70 CENTS/LB. COPPER PRICE,  
TOQUEPALA MAKES BETWEEN APPROXIMATELY 1.5 AND 2 MILLION  
DOLLARS/ MONTH NORMAL PROFIT, BUT THAT WITH 15 PERCENT  
EXPORT TAX THE FIGURE FLUCTUATES BETWEEN 100,000 DOLLARS  
PROFIT AND 100,000 DOLLARS LOSS PER MONTHS.) RUBY SAID  
THAT SPCC WOULD DO AN EXACT ANALYSIS OF EFFECTS OF  
EXPORT TAX FOR PRESENTATION TO GOP. THE TOPIC WAS  
IMPORTANT TO SPCC SINCE INCOME FROM TOQUEPALA HAS BEEN  
COMMITTED TO REPAYMENT OF LOANS FOR CUAJONE CONSTRUCTION  
AND THREAT OF POSSIBLE REDUCTION OR LOSS OF THAT INCOME COULD  
PREVENT BANKS FROM APPROVING FINANCIAL PACKAGE NEEDED  
TO COMPLETE CUAJONE QUICKLY.

6. WHITE SAID THAT GOP TEAM WAS TO COMPLETE WORK  
TODAY (JULY 8) ON TAXES DUE AS RESULT OF 1974 OPERATIONS.  
HE AND RUBY WERE TO MEET WITH BARUA AND LOAYZA ON JULY 9  
TO DISCUSS SKELETON OF AGREEMENT ON RESOLUTION OF TAX  
CASE. SPCC REPS PROMISED TO KEEP US INFORMED OF  
DEVELOPMENTS.  
DEAN

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